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IDAHO PUBLIC UTILITIES COMMISSION

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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE POWER COST)  
ADJUSTMENT (PCA) ANNUAL RATE )  
ADJUSTMENT FILING OF AVISTA )  
CORPORATION )

CASE NO. AVU-E-08-05

DIRECT TESTIMONY OF  
WILIAM G. JOHNSON

FOR AVISTA CORPORATION

1 **I. INTRODUCTION**

2 **Q. Please state your name, business address, and present position with**  
3 **Avista Corporation.**

4 A. My name is William G. Johnson. My business address is 1411 East  
5 Mission Avenue, Spokane, Washington, and I am employed by the Company as a  
6 Wholesale Marketing Manager in the Energy Resources Department.

7 **Q. What is your educational background?**

8 A. I graduated from the University of Montana in 1981 with a Bachelor of  
9 Arts Degree in Political Science/Economics. I obtained a Master of Arts Degree in  
10 Economics from the University of Montana in 1985.

11 **Q. How long have you been employed by the Company and what are**  
12 **your duties as a Wholesale Marketing Manager?**

13 A. I started working for Avista in April 1990 as a Demand Side Resource  
14 Analyst. I joined the Energy Resources Department as a Power Contracts Analyst in June  
15 1996. My primary responsibilities involve power contract origination and management  
16 and power supply regulatory issues.

17 **Q. What is the scope of your testimony in this proceeding?**

18 A. My testimony will provide a brief summary of the factors driving power  
19 supply expenses during the review period, July 2007 through June 2008. I also describe  
20 the supporting documentation that is provided in electronic format.

21

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1 **II. SUMMARY OF DEFERRALS**

2 **Q. Would you please summarize power supply expenses during the July**  
3 **2007 through June 2008 review period?**

4 A. Yes. During the review period, Idaho's share of power supply expenses  
5 exceeded the authorized level by \$23,010,582 (not including Potlatch generation and  
6 revenue variance of \$361,151 in the rebate direction). Of that total, the Company  
7 absorbed \$2,301,058 or 10 percent of the additional power costs subject to the 90%/10%  
8 sharing.<sup>1</sup> This resulted in a net deferral of \$20,709,525 in the surcharge direction.  
9 Adding the Potlatch related deferral of \$361,151 in the rebate direction results in a net  
10 deferral for the period of \$20,348,374 in the surcharge direction.

11 **Q. What factors contributed to the higher power supply expense during**  
12 **the July 2007 through June 2008 review period?**

13 A. Overall, reduced hydro generation and high natural gas fuel costs drove the  
14 majority of the deferrals in the review period. Also, as has been the pattern in recent  
15 years, the second half of the calendar year, July 2007 through December 2007, (first half  
16 of the deferral year) experienced higher expenses relative to the authorized level than the  
17 January 2008 through June 2008 period. Deferrals during the third and fourth quarters of  
18 2007 (July 2007 through December 2007) alone totaled \$13,494,045, or approximately  
19 two-thirds of the total deferrals during the review period.

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<sup>1</sup> The Potlatch power purchase and revenue associated with the purchase is tracked at 100% in the PCA per Idaho Public Utilities Commission Order No. 29418 dated January 15, 2004. The 10% portion absorbed by Avista is based on the portion of the PCA deferrals that are shared 90%/10% which was \$2,301,058 during the review period.

1 Over the entire July 2007 through June 2008 review period hydro generation was  
2 81 aMW below the authorized level. Hydro generation was very low during the third  
3 quarter of 2007 at 143 aMW below the authorized level. Hydro generation improved  
4 during the last nine months of the deferral period (October 2007 through June 2008), but  
5 was still 60 aMW below the authorized level during that period. Only during May and  
6 June of 2008 was hydro generation above the authorized level. Overall, lower hydro  
7 generation caused approximately \$14.3 million of the deferrals during the review period.

8 Natural gas fuel costs were significantly higher than the authorized level and were  
9 responsible for the next largest share of the power cost deferrals after lower hydro  
10 generation. Natural gas fuel expense for Coyote Springs 2 was approximately \$37.5  
11 million more on a system basis than the authorized level. This increased expense  
12 occurred even though Coyote Springs 2 generated 15 aMW less than the generation in  
13 authorized base expense. The average cost of gas for Coyote Springs 2 was \$7.64/dth  
14 during the review period compared to a cost of \$4.81/dth included in authorized power  
15 supply expense. Increased natural gas fuel expense and the cost of replacing lower  
16 generation at Coyote Springs 2 caused approximately \$12.4 million of the deferrals  
17 during the review period.

18 One favorable factor reducing deferrals was the margin from a long-term sale of  
19 energy and renewable energy attributes (California certifiable renewable energy) to a  
20 California utility. Over the review period, the margin from this sale totaled  
21 approximately \$9.3 million on a system basis, which reduced the deferrals by  
22 approximately \$2.9 million ( $\$9.3 \times 34.41\%$  Idaho allocation  $\times 90\%$  customer share).



1           Position Reports: These daily reports show the daily and term purchases each  
2           business day and provide a summary of market power and natural gas prices over  
3           an 18-month forward period.

4           Long-Term Physical Electric Load & Resource Tabulation: For transactions with  
5           deliveries extending greater than the 18-month period covered by the Position  
6           Report, the Company includes this document to show the net system position  
7           during the extended period. This document also shows variability associated with  
8           an 80% confidence interval around the combined variability of hydroelectric  
9           generation and variability of load.

10          Forward Market Electric and Natural Gas Price Curves: This daily data shows  
11          forward market prices for electricity and natural gas and is maintained in Nucleus,  
12          the Company's electronic energy transaction database record system. Forward  
13          market prices are included in the daily Position Reports.

14          New Long-Term Contracts: Electronic copies of the long-term contracts entered  
15          into during the review period are provided.

16          **Q.     Does that conclude your direct pre-filed testimony?**

17          A.     Yes.

**SUPPORTING DOCUMENTS**

**FOR THE DIRECT**

**TESTIMONY OF WILLIAM**

**G. JOHNSON WERE**

**VOLUMINOUS AND**

**CONFIDENTIAL, AND**

**WERE FILED ON A CD**

**SEPARATELY**